

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF EXAMINATION

OF

UNIVANTAGE INSURANCE COMPANY

OF

MURRAY, UTAH

AS OF

DECEMBER 31, 2000

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April 25, 2002

Honorable Merwin U. Stewart, Commissioner
State of Utah Insurance Department
State Office Building, Room 3110
Salt Lake City, Utah 84114-6901

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination of the financial condition and business affairs of

**UNIVANTAGE INSURANCE COMPANY
of
Murray, Utah**

a stock life insurance company, hereinafter referred to as the Company, was conducted as of December 31, 2000.

SCOPE OF EXAMINATION

Period Covered by Examination

The examination covered the period from January 8, 1996 through December 31, 2000, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination. The Company's parent, Workers Compensation Fund, a Utah domiciled property and casualty insurance company, was examined concurrently.

Examination Procedure Employed

The examination included a general review and analysis of the Company's operations and a determination of its financial condition as of December 31, 2000. Material assets were valued and ownership verified. Liabilities were determined in accordance with laws, rules, and procedures prescribed by the State of Utah. The examination was conducted in accordance with generally accepted standards and procedures of regulatory authorities relating to such examinations. It included tests of the accounting records and a review of the Company's affairs and practices to the extent deemed necessary.

A letter of representation certifying that management has disclosed all significant matters and records was obtained from management and has been included in the examination working papers.

Status of Adverse Findings, Material Changes in the Financial Statements, and Other Significant Regulatory Information Disclosed in the Previous Examination

This is the first examination of the Company since the transfer of its charter to Workers Compensation Fund on January 8, 1996.

HISTORY

General

In December 1995, Workers Compensation Fund entered into an agreement with the Utah Insurance Commissioner, acting in his capacity as court-appointed liquidator of Bonneville Life Insurance Company, to purchase Bonneville Life Insurance Company's corporate charter and the right to its state licenses. The purchase agreement was executed on January 8, 1996.

On January 9, 1996, the Utah Insurance Department ("Department") approved Articles of Amendment and Restatement of the Articles of Incorporation, which changed the Company's name to Univantage Insurance Company. The Company's bylaws were filed with the Department on January 9, 1996. The articles and bylaws were amended in 1998 to reduce the minimum number of directors from five to three. Article XI of the amended and restated articles of incorporation requires an annual independent audit of the books and accounts of the Company. An independent audit report was not completed in the years 1998 through 2000.

The Company operates under U.C.A. Title 31A. As of December 31, 2000, the Company was authorized to transact life, annuity and disability lines of insurance. Subsequent to the formation of the Company, Workers Compensation Fund was restricted by statute from offering insurance lines other than workers' compensation, either directly or through subsidiaries. The Company has not transacted insurance business since its acquisition by Workers Compensation Fund.

Capital Stock

As of the examination date, the Company had authorized capital of \$10,000,000, divided into 1,000,000 shares of common stock with a par value of \$10 per share. Ninety thousand shares were issued and outstanding for a total of \$900,000 paid in capital and \$34,123 paid in and contributed surplus. Workers Compensation Fund owned 100 percent of the outstanding shares of common stock.

Dividends to Stockholders

No dividends were declared or paid during the examination period.

Management

The Company's articles of incorporation and bylaws state that "[t]he business and affairs of the corporation shall be conducted by a Board of Directors consisting of not less than three or more than nine persons." On December 31, 2000, a three-member board of directors, consisting of the president and two directors from Workers Compensation Fund governed the Company. Directors serving were:

<u>Name</u>	<u>Principal Occupation</u>
Lane Alma Summerhays Salt Lake City, Utah	President, Chief Executive Officer Workers Compensation Fund
Melvin Carl Green Salt Lake City, Utah	Owner, Chairman Creative Color
Mark Howard Heugly Centerville, Utah	Senior Vice President ACS

Article IV of the Company's bylaws provides for principal officers to consist of a president, one or more vice presidents, a secretary, and a treasurer. A vice president was not serving on December 31, 2000. Officers serving the Company on December 31, 2000, follow:

<u>Officer</u>	<u>Office</u>
Lane Alma Summerhays	President, Chief Executive Officer
Dennis Vaughn Lloyd	Secretary
Ray David Pickup	Treasurer, Chief Financial Officer

Conflict of Interest Procedure

Article III, Section 3.02, of the bylaws requires the board of directors to adopt an appropriate conflict of interest policy that requires its members to subscribe to a conflict of interest disclosure at least annually. The Company did not obtain a conflict of interest disclosure from its members on an annual basis.

Corporate Records

In general, the minutes of meetings indicated that the sole stockholder and directors adequately approved and supported the Company's transactions and events.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

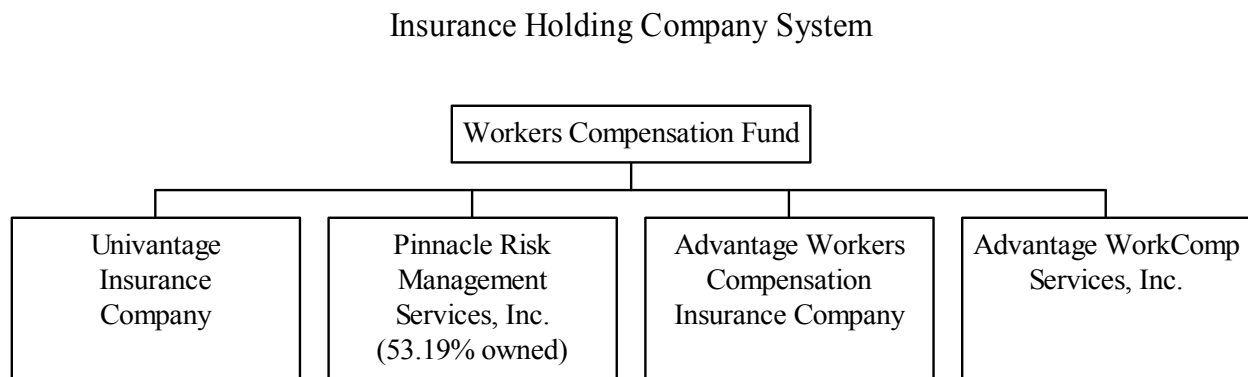
The Company was not involved in any of these transactions during the examination period.

Surplus Debentures

No debentures were issued or retired during the examination period and none was outstanding as of December 31, 2000.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system. An organizational chart presenting the identities of and interrelationships between the Company and its affiliates on December 31, 2000, follows:



Workers Compensation Fund is a nonprofit, tax-exempt, quasi-public, Utah domiciled property and casualty insurance company. Advantage Workers Compensation Insurance Company is an Indiana domiciled property and casualty insurance company. Pinnacle Risk Management Services, Inc. (“Pinnacle”) is a third-party administrator of workers’ compensation claims. Advantage WorkComp Services, Inc. is a workers’ compensation products and services company.

Subsequent to the examination date, Workers Compensation Fund’s board of directors ratified the purchase of a minority shareholder’s Pinnacle common stock. The purchase increased Workers Compensation Fund’s ownership to 94.74 percent.

Management Agreements, Service Contracts and Cost-sharing Arrangements

Effective June 15, 1998, Workers Compensation Fund, Pinnacle, Advantage WorkComp Services, Inc., and the Company entered into an agreement for cooperative and joint use of personnel, property, equipment, and services. Workers Compensation Fund agreed to provide its subsidiaries personnel, property, equipment, and services to enable the subsidiaries to conduct business and other corporate functions. The agreement requires that the amount charged be fair, reasonable, equitable and in accordance with the prevailing market rates.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the National Association of Insurance Commissioners for an insurer of the Company's size is between \$1,000 and \$25,000. At the examination date, the Company was a named insured on Workers Compensation Fund's fidelity coverage in the form of an aggregate bond with a single loss limit of \$1,250,000 and a single loss deductible of \$50,000.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company did not have any pension, stock ownership, or insurance plans. The Company's parent was responsible for the business operations of the Company under a cooperative and joint use agreement.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to its required capital in the amount of \$400,000. Wells Fargo Bank held U.S. Treasury Notes with a par value of \$400,000, and a market value of \$388,000, under a tri-party agreement with the Department.

INSURANCE PRODUCTS AND RELATED PRACTICES

As of December 31, 2000, the Company was authorized to transact life, annuity, and disability insurance in the State of Utah. No insurance business was conducted during the examination period.

REINSURANCE

The Company did not assume or cede reinsurance business during the examination period.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained by Workers Compensation Fund. The general ledger is maintained on a full accrual basis of accounting. The annual statement is prepared by reallocating and adjusting account balances to conform to annual statement requirements.

An examination trial balance, as of December 31, 2000, was prepared from the Company's trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

As of the examination date, the Company's custodial agreement with First Security Bank was not in compliance with Utah Administrative Code § R590-178-4. Prior to completion of this examination, the agreement was brought into compliance.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2000, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

Balance Sheet as of December 31, 2000
Summary of Operations – January 1, 2000 through December 31, 2000
Capital and Surplus – January 1, 1996 through December 31, 2000

The accompanying comments on financial statements are an integral part of these statements.

Univantage Insurance Company
Balance Sheet
As of December 31, 2000

ADMITTED ASSETS

	<u>Amount</u>	<u>Notes</u>
Bonds	\$1,255,603	
Cash and short-term investments	136,313	
Federal income tax recoverable and interest thereon	0	(1)
Investment income due and accrued	21,292	
Total assets	<u><u>1,413,208</u></u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

Interest maintenance reserve	28,748	
Taxes, licenses and fees due or accrued, excluding federal income taxes	0	(2)
Payable to parent, subsidiaries and affiliates	4,119	
Total liabilities	<u><u>32,867</u></u>	
 Common capital stock	 5,000,000	
Gross paid in and contributed surplus	34,123	
Unassigned funds (surplus)	446,218	
Treasury stock, at cost	<u>(4,100,000)</u>	
Total capital and surplus	<u><u>1,380,341</u></u>	
Total liabilities, capital and surplus	<u><u>\$1,413,208</u></u>	

Univantage Insurance Company
Summary of Operations
January 1, 2000 through December 31, 2000

	<u>Amount</u>
Net investment income	\$85,049
Amortization of interest maintenance reserve	<u>17,199</u>
Total	<u>102,248</u>
General insurance expenses	22,390
Insurance taxes, licenses and fees, excluding federal income taxes	<u>3,511</u>
Total	<u>25,901</u>
Net gain from operations before dividends to policyholders and federal income taxes	76,347
Federal income taxes incurred (excluding tax on capital gains)	<u>9,381</u>
Net income	<u><u>\$66,966</u></u>

Univantage Insurance Company
Capital and Surplus
January 1, 1996 through December 31, 2000

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	Per Exam <u>2000</u>
Capital and surplus December 31, previous year	\$ 0	\$5,009,949	\$5,191,924	\$1,252,406	\$1,321,002
Net income	35,115	161,627	121,541	68,596	66,966
Change in non-admitted assets and related items	(59,289)	20,348	38,941		(7,627)
Change in treasury stock			(4,100,000)		
Capital changes: Paid in	5,000,000				
Surplus adjustments: Paid in	34,123				
Net change in capital and surplus for the year	<u>5,009,949</u>	<u>181,975</u>	<u>(3,939,518)</u>	<u>68,596</u>	<u>59,339</u>
Capital and surplus, December 31, current year	<u><u>\$5,009,949</u></u>	<u><u>\$5,191,924</u></u>	<u><u>\$1,252,406</u></u>	<u><u>\$1,321,002</u></u>	<u><u>\$1,380,341</u></u>

COMMENTS ON FINANCIAL STATEMENTS

(1) Federal income tax recoverable and interest thereon **\$ 0**

As of the examination date, federal income tax recoverable was not listed as a qualified asset under U.C.A. § 31A-17-201. Therefore, the asset was not allowed in determining the financial condition of the Company.

(2) Taxes, licenses and fees due or accrued, excluding federal income taxes **\$ 0**

The Company reported a negative liability in the amount of \$1,052, which should have been reported as a not admitted recoverable. As of the examination date, taxes, licenses and fees recoverable was not listed as a qualified asset under U.C.A. § 31A-17-201. Therefore, the asset was not allowed in determining the financial condition of the Company.

CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$7,627 less than reported. The following schedule identifies examination changes:

<u>Description</u>	<u>Annual Statement Dr (Cr)</u>	<u>Exam</u>	<u>Change in Surplus Inc (Dec)</u>	<u>Notes</u>
Federal income tax recoverable and interest thereon	\$6,575	\$0	\$ (6,575)	(1)
Taxes, licenses and fees due or accrued	1,052	0	(1,052)	(2)
Total changes			(7,627)	
Capital and surplus per Company			<u>1,387,968</u>	
Capital and surplus per examination			<u><u>\$1,380,341</u></u>	

U.C.A. § 31A-5-211 requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. 31A-17, Part VI, the Company reported total adjusted capital in the amount of \$1,387,968 and authorized control level Risk-Based Capital ("RBC") in the amount of \$205. The examination determined total adjusted capital to be \$1,380,341 and accepted the Company's calculation of its authorized control level RBC. Examination adjustments would not have a material effect on the authorized control level RBC calculation.

SUMMARY

Items of significance or special interest contained in this report are summarized below:

- (1) Article XI of the amended and restated articles of incorporation requires an annual independent audit of the books and accounts of the Company. An independent audit report was not completed in the years 1998 through 2000. **(HISTORY – General)**
- (2) Subsequent to the formation of the Company, Workers Compensation Fund was restricted by statute from offering insurance lines other than workers' compensation, either directly or through subsidiaries. The Company has not transacted insurance business since its acquisition by Workers Compensation Fund. **(HISTORY – General)**
- (3) Article IV of the Company's bylaws provides for principal officers to consist of a president, one or more vice presidents, a secretary, and a treasurer. A vice president was not serving on December 31, 2000. **(HISTORY – Management)**
- (4) Article III, Section 3.02, of the bylaws requires the board of directors to adopt an appropriate conflict of interest policy that requires its members to subscribe to a conflict of interest disclosure at least annually. The Company did not obtain a conflict of interest disclosure from its members on an annual basis. **(HISTORY – Conflict of Interest)**
- (5) The Company is a member of an insurance holding company system. **(AFFILIATED COMPANIES)**
- (6) The Company did not have any pension, stock ownership, or insurance plans. The Company's parent was responsible for the business operations of the Company under a cooperative and joint use agreement. **(PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS)**
- (7) The Company is required to maintain a statutory deposit in the amount of \$400,000. U.S. Treasury Notes with a par value of \$400,000, and a market value of \$388,000 were on deposit. **(STATUTORY DEPOSITS)**
- (8) As of the examination date, the Company's custodial agreement with First Security Bank was not in compliance with Utah Administrative Code § R590-178-4. Prior to completion of this examination, the agreement was brought into compliance. **(ACCOUNTS AND RECORDS)**
- (9) The Company is required to maintain minimum capital in the amount of \$400,000. The examination determined total adjusted capital to be \$1,380,341 and accepted the Company's calculation of its authorized control level RBC in the amount of \$205. **(CAPITAL AND SURPLUS)**

CONCLUSION

Assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company are acknowledged. In addition to the undersigned, Colette Reddoor, AFE, Financial Examiner participated in the examination. John Kay, CFE, CIE, Assistant Chief Examiner supervised the examination.

Respectfully submitted,

C. Kay Anderson, CFE
Examiner-in-Charge, representing the
Utah Insurance Department